



Management's Discussion and Analysis

For the three months ended

March 31, 2023 and 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (the "MD&A") has been prepared by management and was reviewed and approved by the Board of Directors of Lucero Energy Corp. ("Lucero" or the "Company") on May 9, 2023. This MD&A should be read in conjunction with the Company's unaudited interim consolidated financial statements as at and for the three months ended March 31, 2023 and the audited consolidated financial statements as at and for the year ended December 31, 2022. The reader should be aware that the operating results discussed below may not be indicative of future performance.

The financial data presented below has been prepared in accordance with International Financial Reporting Standards ("IFRS"), unless otherwise indicated.

Frequently Used Terms

<u>Term</u>	<u>Description</u>
Bbl(s)	Barrel(s)
Boe	Barrel(s) of oil equivalent
Bbls/d	Barrels per day
Boepd	Barrels of oil equivalent per day
HH	Henry Hub, reference price paid in US\$ for natural gas deliveries
Mcf	Thousand cubic feet
Mmbtu	Million British Thermal Units
Mmbtu/d	Million British Thermal Units per day
NGLs	Natural gas liquids
WTI	West Texas Intermediate, reference price paid in US\$ for crude oil of standard grade

Barrel of Oil Equivalent Advisory

Where amounts are expressed on a Boe basis, natural gas volumes have been converted to Boe using a ratio of 6,000 cubic feet of natural gas to one barrel of oil (6 Mcf:1 Bbl). This Boe conversion ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. The value ratio between the commodities, based on the price of crude oil compared to natural gas, could be significantly different from the energy equivalency of 6 Mcf: 1 Bbl, and therefore utilizing this conversion ratio may be misleading as an indication of value.

Presentation of Volumes

The Company's reserves have been categorized as Tight Oil, Shale Gas, and Natural Gas Liquids pursuant to National Instrument 51-101, Standards of Disclosure for Oil and Gas Activities ("NI 51-101"). Production volumes and per Boe calculations are presented on a gross working interest basis, before royalty interests, unless otherwise stated.

Functional and Presentation Currency

Amounts in this MD&A are in Canadian dollars, which is the Company's presentation currency, unless otherwise stated. Transactions of the Company's US subsidiary are recorded in US dollars, as this is the primary economic environment in which this subsidiary operates. The US subsidiary has a US dollar functional currency. In translating the financial results from US dollars to Canadian dollars, the Company uses the following method: assets and liabilities are translated at the exchange rate in effect as at the date of the consolidated balance sheet; revenues and expenses are translated at the rate effective at the time of the transaction or the average rate for the period; and changes in shareholders' equity are translated at the rate effective at the time of the transaction. Unrealized gains and losses resulting from the translation to the Canadian dollar presentation currency are included in other comprehensive income.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Non-GAAP and Other Financial Measures

Throughout this MD&A and in other materials disclosed by the Company, Lucero uses certain measures to analyze historical financial performance, financial position and cash flow. These non-GAAP and other financial measures are not defined by IFRS and therefore may not be comparable to performance measures presented by others. These non-GAAP and other financial measures should not be considered to be more meaningful than GAAP measures which are defined by IFRS, such as net income (loss) or cash provided by operating activities, as indicators of the Company's performance.

Non-GAAP Financial Measures

Exploration and Development Expenditures

Lucero uses exploration and development expenditures to measure the Company's investments in capital compared to the Company's annual capital budget. The most directly comparable GAAP measure to exploration and development expenditures is additions to property, plant and equipment in the cash used in investing activities. The reconciliation between additions to property, plant and equipment, as defined by IFRS, and exploration and development expenditures, as defined herein, is as follows:

<i>(\$ thousands)</i>	Three months ended	
	2023	March 31, 2022
Additions to property, plant and equipment	\$32,059	\$11,791
Capitalized general and administrative expenses	(744)	(729)
Exploration and development expenditures	\$31,315	\$11,062

Capital Expenditures

In addition to Exploration and Development Expenditures, Lucero uses capital expenditures to quantify the Company's investments in property, plant and equipment. The most directly comparable GAAP measure to capital expenditures is cash used in investing activities. The reconciliation between cash used in investing activities, as defined by IFRS, and capital expenditures, as defined herein, is as follows:

<i>(\$ thousands)</i>	Three months ended	
	2023	March 31, 2022
Cash used in investing activities	\$35,317	\$20,010
Change in non-cash investing working capital	(3,258)	(8,219)
Capitalized share-based compensation	742	320
Decommissioning obligations	619	(1,084)
Capital expenditures	\$33,420	\$11,027

Funds Flow and Funds Flow, Excluding Transaction Related Costs

Funds flow represents cash provided by operating activities prior to changes in non-cash working capital and including cash finance expenses. Funds flow, excluding transaction related costs, represents cash provided by operating activities prior to changes in non-cash working capital and transaction related costs, including cash finance expenses. Lucero considers these measures to be useful as they assist in the determination of the Company's ability to generate liquidity necessary to finance capital expenditures, settlement of decommissioning obligations and service its debt. Transaction related costs are incurred during asset acquisitions, corporate acquisitions, or corporate reorganizations and are typically not considered a cost incurred in the normal course of business. As a result, excluding transaction related costs from funds flow further assists in the determination of the Company's ability to generate liquidity in the normal course of business.

<i>(\$ thousands)</i>	Three months ended	
	2023	March 31, 2022
Cash provided by operating activities	\$34,918	\$38,242
Finance expenses - cash	(1,572)	(2,063)
Changes in non-cash operating working capital	6,563	(2,578)
Funds flow	\$39,909	\$33,601
Transaction related costs	-	2,100
Funds flow, excluding transaction related costs	\$39,909	\$35,701

MANAGEMENT'S DISCUSSION AND ANALYSIS

Adjusted Earnings before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA")

Lucero uses adjusted EBITDA, which represents cash provided by operating activities prior to changes in non-cash working capital, to measure the Company's ability to generate funds to service debt and other obligations and to fund the Company's operations, without the impact of changes in non-cash working capital which can vary based solely on timing of settlement of accounts receivable and accounts payable. The reconciliation between cash flow from operating activities, as defined by IFRS, and adjusted EBITDA, as defined herein, is as follows:

<i>(\$ thousands)</i>	Three months ended	
	March 31,	
	2023	2022
Cash provided by operating activities	\$34,918	\$38,242
Changes in non-cash operating working capital	6,563	(2,578)
Adjusted EBITDA	\$41,481	\$35,664

Operating Netback and Operating Netback Prior to Hedging

Operating netback represents petroleum and natural gas revenues, plus or minus any realized gain or loss on financial derivatives, less royalties, operating expenses, production taxes, and transportation expenses. Operating netback prior to hedging represents operating netback prior to any realized gain or loss on financial derivatives. Lucero believes that in addition to net income (loss) and cash provided by operating activities, operating netback and operating netback prior to hedging are useful supplemental measures as they assist in the determination of the Company's operating performance, leverage, and liquidity. Operating netback is commonly used by investors to assess performance of oil and gas properties and the possible impact of future commodity price changes on energy producers.

The table below discloses Lucero's operating netback and operating netback prior to hedging, including the reconciliation to the Company's most closely comparable GAAP measure, petroleum and natural gas revenues.

<i>(\$ thousands)</i>	Three months ended	
	March 31,	
	2023	2022
Petroleum and natural gas revenues	\$73,727	\$84,843
Royalties	(13,131)	(15,843)
Operating expenses	(9,611)	(7,664)
Production taxes	(5,870)	(5,800)
Transportation expenses	(1,742)	(1,704)
Operating netback prior to hedging	\$43,373	\$53,832
Realized loss on financial derivatives	-	(14,322)
Operating netback	\$43,373	\$39,510

Net Debt

Net debt represents total liabilities, excluding decommissioning obligations, deferred tax liability, and lease liability, less current assets. Lucero believes net debt is a key measure to assess the Company's liquidity position at a point in time. Net debt is not a standardized measure and may not be comparable with similar measures for other entities. The reconciliation between total liabilities, as defined by IFRS, and net debt, as defined herein, is as follows:

	As at March 31, 2023	As at December 31, 2022	As at March 31, 2022
Total liabilities	\$143,701	\$149,123	\$217,048
Decommissioning obligations	(6,654)	(5,993)	(6,854)
Deferred tax liability	(37,474)	(30,553)	(3,118)
Financial derivative liability	-	-	(27,717)
Lease liability	(945)	(1,053)	(1,323)
Total current assets	(29,020)	(34,098)	(56,944)
Net Debt	\$69,608	\$77,426	\$121,092

MANAGEMENT'S DISCUSSION AND ANALYSIS

Non-GAAP Financial Ratios

Adjusted EBITDA per Share Basic and Diluted

The Company calculates adjusted EBITDA per share basic and diluted as adjusted EBITDA divided by weighted average basic and diluted shares outstanding, respectively. Adjusted EBITDA is a non-GAAP financial measure. Lucero believes that adjusted EBITDA per share basic and diluted are key industry performance measures of the Company's ability to generate liquidity and are common measures within the oil and gas industry.

Funds Flow and Funds Flow, Excluding Transaction Costs per Share Basic and Diluted

The Company calculates funds flow per share basic and diluted as funds flow divided by weighted average basic and diluted shares outstanding, respectively. Funds flow, excluding transaction costs per share basic and diluted is calculated as funds flow, excluding transaction costs divided by weighted average basic and diluted shares outstanding, respectively. Funds flow and funds flow, excluding transaction costs are non-GAAP financial measures. Lucero believes that funds flow per share basic and diluted and funds flow, excluding transaction costs per share basic and diluted are key industry performance measures of the Company's ability to generate liquidity and are common measures within the oil and gas industry.

Operating Netback per Boe and Operating Netback Prior to Hedging per Boe

The Company calculates operating netback per Boe as operating netback divided by production for the period. Operating netback prior to hedging per Boe is calculated as operating netback prior to hedging divided by production for the period. Operating netback and operating netback prior to hedging are non-GAAP financial measures. Lucero believes that operating netback per Boe and operating netback prior to hedging per Boe are key industry performance measures of operational efficiency and are common measures within the oil and gas industry.

Supplementary Financial Measures

In this MD&A, the Company uses the following supplementary financial measures, which have the following meaning.

"Average realized NGLs price" (per Bbl) is comprised of NGLs commodity sales from production, as determined in accordance with IFRS, divided by the Company's NGLs production, expressed in US\$ or C\$, as applicable.

"Average realized shale gas price" (per Mcf) is comprised of shale gas commodity sales from production, as determined in accordance with IFRS, divided by the Company's shale gas production, expressed in US\$ or C\$, as applicable.

"Average realized tight oil price" (per Bbl) is comprised of tight oil commodity sales from production, as determined in accordance with IFRS, divided by the Company's tight oil production, expressed in US\$ or C\$, as applicable.

"Depletion and depreciation expenses per BOE" is comprised of the Company's depletion and depreciation expenses, as determined in accordance with IFRS, divided by the Company's total production (on a BOE basis).

"Impairment (impairment recovery) per BOE" is comprised of the Company's impairment, or impairment recovery for the period, as the case may be, as determined in accordance with IFRS, divided by the Company's total production (on a BOE basis).

"Net G&A expenses per BOE" is comprised of the Company's gross G&A expenses, as determined in accordance with IFRS, less capitalized G&A, as determined in accordance with IFRS, divided by the Company's total production (on a BOE basis).

"Operating expenses per BOE" is comprised of the Company's operating expenses, as determined in accordance with IFRS, divided by the Company's total production (on a BOE basis).

(continued)

MANAGEMENT'S DISCUSSION AND ANALYSIS

"Petroleum and natural gas revenues, per BOE" is comprised of petroleum and natural gas revenues, as determined in accordance with IFRS, divided by the Company's total production (on a BOE basis).

"Petroleum and natural gas revenues, net, per BOE" is comprised of petroleum and natural gas revenues, net of royalties, as determined in accordance with IFRS, divided by the Company's total production (on a BOE basis).

"Production taxes per BOE" is comprised of the Company's production taxes, as determined in accordance with IFRS, divided by the Company's total production (on a BOE basis).

"Realized loss on financial derivatives, per BOE" is comprised of the Company's realized loss on financial derivatives, as determined in accordance with IFRS, divided by the Company's total production (on a BOE basis).

"Royalties per BOE" is comprised of royalties, as determined in accordance with IFRS, divided by the Company's total production (on a BOE basis).

"Royalties as a percentage of revenue" is comprised of royalties, as determined in accordance with IFRS, divided by petroleum and natural gas revenues as determined in accordance with IFRS.

"Net share-based compensation expenses per BOE" is comprised of the Company's net share-based compensation expenses, as determined in accordance with IFRS, divided by the Company's total production (on a BOE basis).

"Operating expenses per BOE" is comprised of the Company's operating expenses, as determined in accordance with IFRS, divided by the Company's total production (on a BOE basis).

"Transaction related costs per BOE" is comprised of the Company's transaction related costs, as determined in accordance with IFRS, divided by the Company's total production (on a BOE basis).

"Transportation expenses per BOE" is comprised of the Company's transportation expenses, as determined in accordance with IFRS, divided by the Company's total production (on a BOE basis).

"Unrealized gain (loss) on financial derivatives per BOE" is comprised of the Company's unrealized gain (loss) on financial derivatives, as determined in accordance with IFRS, divided by the Company's total production (on a BOE basis).

MANAGEMENT'S DISCUSSION AND ANALYSIS

Forward-Looking Statements

This MD&A contains forward looking statements and forward-looking information (collectively, "forward looking statements") within the meaning of applicable Canadian securities laws. The use of any of the words "expect," "anticipate," "continue," "estimate," "objective," "ongoing," "may," "will," "project," "should," "believe," "plans," "intends," "strategy," and similar expressions are intended to identify forward-looking information or statements. In particular, but without limiting the foregoing, this MD&A contains forward-looking information and statements pertaining to the following: Management's assessment of future plans and operations, the Company's plans, focus and strategy, the Company's intention to use derivative instruments, anticipated timing to complete wells, the term out and maturity dates of the senior credit facility and the timing for the next borrowing base review thereunder, methods the Company will use to monitor cash flow and terms of contractual obligations and other commercial commitments.

The forward-looking information and statements included in this MD&A are not guarantees of future performance and should not be unduly relied upon. Such information and statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information or statements including, without limitation: risks associated with oil and gas development, exploitation, production, marketing and transportation of oil, natural gas (including as it relates to the Dakota Access Pipeline and other transportation methods), and natural gas liquids, loss of markets, determinations by OPEC and other countries as to production levels, events resulting from hostilities in the Ukraine and elsewhere, the results of litigation matters, volatility of commodity prices, currency fluctuations, inability to transport or process natural gas at economic rates or at all, imprecision of reserve estimates, environmental risks, competition from other producers, impacts of inflation, inability to retain drilling rigs and other services at reasonable costs or at all, unforeseen challenges or circumstances in drilling, equipping and completing wells leading to higher capital costs than anticipated, incorrect assessment of the value of acquisitions, failure to realize the anticipated benefits of acquisitions or drilling operations, risks associated with Lucero's non-operated status on some of its properties, risks associated with the availability of transportation of the Company's production through pipeline and other systems; risks associated with pricing and costs inflation; production delays resulting from an inability to obtain required regulatory approvals or services, unfavorable weather, or the tie-in of associated natural gas production and an inability to access sufficient capital from internal and external sources.

The Company's actual results may differ materially from those expressed in, or implied by, the forward-looking statements. Forward looking statements or information is based on several factors and assumptions which have been used to develop such statements and information, but which may prove to be incorrect. Although Lucero believes that the expectations reflected in such forward-looking statements or information are reasonable, undue reliance should not be placed on forward looking statements because the Company can give no assurance that such expectations will prove to be correct. In addition to other factors and assumptions which may be identified in this document and other documents filed by the Company, assumptions have been made regarding, among other things: the impact of increasing competition; the general stability of the economic, regulatory and political environment in which Lucero operates; the outcome of various legal and other administrative matters effecting the Company and/or its properties; the ability of the Company to obtain and retain qualified staff, equipment and services in a timely and cost efficient manner; the impact of inflation on the Company's costs; drilling results; the ability of the Company and the operators of its non-operated properties to operate in the field in a safe, efficient, compliant and effective manner; Lucero's ability to obtain financing on acceptable terms or at all; changes in the Company's credit facilities including changes to borrowing base and maturity dates; receipt of regulatory approvals; field production rates and decline rates; the ability of the Company, and the operators of its non-operated properties, to tie-in associated natural gas production in an economic manner, or at all; the ability to manage lease operating and transportation costs; the ability to replace and expand oil and natural gas reserves through acquisition, development or exploration; the ability to convert non-producing proved and undeveloped or probable oil and natural gas reserves to producing reserves; the timing and costs of pipeline, storage and facility construction and expansion; the ability of the Company to secure adequate transportation for commodity production; future petroleum and natural gas prices; differentials between benchmark commodity prices and those received by the Company for its production in the field; currency exchange and interest and inflation rates; the regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which the Company operates; Lucero's ability to successfully drill, complete and commence production at commercial rates from its operated wells; and Lucero's ability, or those of the operators of its non-operated properties, to successfully market its petroleum and natural gas products. Readers are cautioned that the foregoing list of factors is not exhaustive.

Additional information on these and other factors that could affect the Company's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the System for Electronic Document Analysis and Retrieval ("SEDAR") website (www.sedar.com) or at the Company's website (www.luceroenergy.com). Furthermore, the forward looking statements contained in this document are made as at the date of this document and the Company does not undertake any obligation to update publicly or to revise any of the included forward looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial and Operational Highlights

Financial (<i>\$ thousands, except share amounts</i>)	Three months ended	
	2023	March 31, 2022
Petroleum and natural gas revenues	\$73,727	\$84,843
Cash provided by operating activities	\$34,918	\$38,242
Net income	\$18,469	\$5,888
Per share - basic	\$0.03	\$0.01
Per share - diluted	\$0.03	\$0.01
Funds flow ⁽¹⁾	\$39,909	\$33,601
Per share - basic ⁽³⁾	\$0.06	\$0.06
Per share - diluted ⁽³⁾	\$0.06	\$0.05
Funds flow, excluding transaction related costs ⁽¹⁾	\$39,909	\$35,701
Per share - basic ⁽³⁾	\$0.06	\$0.06
Per share - diluted ⁽³⁾	\$0.06	\$0.06
Adjusted EBITDA ⁽¹⁾	\$41,481	\$35,664
Per share - basic ⁽³⁾	\$0.06	\$0.06
Per share - diluted ⁽³⁾	\$0.06	\$0.06
Exploration and development expenditures ⁽¹⁾	\$31,315	\$11,062
Net debt ⁽¹⁾	\$69,608	\$121,092
Number of common shares outstanding		
Shares outstanding, end of period	662,410,687	659,637,831
Weighted average - basic	662,410,687	609,679,498
Weighted average - diluted	671,483,753	623,169,564
Operating		
Daily production ⁽²⁾		
Tight oil (Bbls)	6,904	7,065
Shale gas (Mcf)	12,719	11,138
Natural gas liquids (Bbls)	2,235	1,760
Barrels of oil equivalent	11,259	10,681
Average realized price:		
Tight oil (\$/Bbls)	\$104.80	\$119.28
Shale gas (\$/Mcf)	\$5.64	\$4.87
Natural gas liquids (\$/Bbls)	\$10.70	\$27.30
Barrels of oil equivalent (\$/Boe)	\$72.76	\$88.26
Operating netback (\$ per Boe) ⁽³⁾		
Petroleum and natural gas revenues	\$72.76	\$88.26
Royalties	(\$12.96)	(\$16.48)
Operating expenses	(\$9.48)	(\$7.97)
Production taxes	(\$5.79)	(\$6.03)
Transportation expenses	(\$1.72)	(\$1.77)
Operating netback prior to hedging ⁽¹⁾	\$42.81	\$56.01
Realized loss on financial derivatives	-	(\$14.90)
Operating netback ⁽¹⁾	\$42.81	\$41.11

⁽¹⁾ Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to the section "Non-GAAP and Other Financial Measures" contained within this MD&A.

⁽²⁾ The Company's reserves have been categorized as Tight Oil, Shale Gas, and Natural Gas Liquids pursuant to National Instrument 51-101, Standards of Disclosure for Oil and Gas Activities ("NI 51-101").

⁽³⁾ Non-GAAP ratio that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Includes a non-GAAP financial measure component of operating netback. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for an explanation of composition.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Description of Business

Lucero Energy Corp. ("Lucero" or the "Company") is an independent oil company focused on the acquisition, development, and production of oil-weighted assets in the Bakken and Three Forks formations in the Williston Basin area of North Dakota. The Company's common shares are listed on the TSX Venture Exchange under the "LOU" ticker symbol.

The Company has corporate offices located at Suite 1800, 350 - 7th Avenue SW, Calgary, Alberta T2P 3N9 and at 303 E. 17th Avenue, Suite 940, Denver, CO 80203.

Results of Operations

Production

<i>(\$ thousands)</i>	Three months ended	
	March 31,	
	2023	2022
Tight oil (Bbl per day)	6,904	7,065
Shale gas (Mcf per day)	12,719	11,138
Natural gas liquids (Bbl per day)	2,235	1,760
Total (Boe per day)	11,259	10,681
Liquids percentage of total	81%	83%

Total production during the three months ended March 31, 2023 increased 5%, compared to the three months ended March 31, 2022 (the "Corresponding Period"). The increase in the three months ended March 31, 2023 is primarily due to new production from operated wells drilled and completed during the past year, partly offset by natural declines.

Pricing

	Three months ended	
	March 31,	
	2023	2022
<i>Average Benchmark Prices (US\$):</i>		
Crude oil - WTI (per Bbl)	\$76.11	\$94.38
Natural gas - HH spot (per Mcf) ⁽¹⁾	\$2.70	\$4.57
<i>Average Differential (US\$):</i>		
Crude oil - (per Bbl)	\$1.37	(\$0.20)
Natural gas - (per Mcf) ⁽¹⁾	\$1.47	(\$0.73)
<i>Average Realized Prices (US\$):</i>		
Tight oil (per Bbl)	\$77.48	\$94.18
Shale gas (per Mcf)	\$4.17	\$3.84
Natural gas liquids (per Bbl)	\$7.91	\$21.55
<i>Average Realized Prices (C\$):</i>		
Tight oil (per Bbl)	\$104.80	\$119.28
Shale gas (per Mcf)	\$5.64	\$4.87
Natural gas liquids (per Bbl)	\$10.70	\$27.30

⁽¹⁾ Includes conversion from Mmbtu to Mcf.

The Company's average differential for crude oil improved during the three months ended March 31, 2023. Crude oil pricing differentials are largely a function of global supply/demand fundamentals as well as crude oil quality, transportation and inventories.

Henry Hub benchmark natural gas prices in the three months ended March 31, 2023 decreased compared to the Corresponding Period, as North American and global supply/demand fundamentals subsided. NGL prices in the three months ended March 31, 2023 reflected the decrease in oil prices.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Revenues and Royalties

<i>(\$ thousands, except where noted)</i>	Three months ended	
	March 31,	
	2023	2022
Tight oil	\$65,117	\$75,637
Shale gas	6,458	4,882
Natural gas liquids	2,152	4,324
Petroleum and natural gas revenues	\$73,727	\$84,843
Less: royalties	(13,131)	(15,843)
Petroleum and natural gas revenues, net	\$60,596	\$69,000
Royalties as a percentage of revenues	18%	19%
Per Boe amounts:		
Petroleum and natural gas revenues	\$72.76	\$88.26
Less: royalties	(12.96)	(16.48)
Petroleum and natural gas revenues, net	\$59.80	\$71.78

Revenues in the three months ended March 31, 2023 decreased 13%, compared to the Corresponding Period. The decrease was primarily due to lower realized commodity prices.

The Company's royalty rate as a percentage of revenues decreased for the three months ended March 31, 2023, compared to the Corresponding Period. The decrease was primarily due to an increase in production from assets that benefit from lower royalty rates in the current period.

Realized and Unrealized Loss on Financial Derivatives

<i>(\$ thousands)</i>	Three months ended	
	March 31,	
	2023	2022
Realized loss on financial derivatives	-	(\$14,322)
Realized loss on financial derivatives per Boe	-	(\$14.90)
Unrealized loss on financial derivatives	-	(\$12,493)
Unrealized loss on financial derivatives per Boe	-	(\$13.00)

Operating Expenses

<i>(\$ thousands, unless otherwise noted)</i>	Three months ended	
	March 31,	
	2023	2022
Operating expenses	\$9,611	\$7,664
Operating expenses per Boe	\$9.48	\$7.97

Operating expenses increased on both a dollar and per Boe basis, for the three months ended March 31, 2023, compared to the Corresponding Period. On a per Boe basis, the increase was primarily due to cost inflation, largely related to non-operated properties.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Production Taxes

<i>(\$ thousands, unless otherwise noted)</i>	Three months ended	
	March 31,	
	2023	2022
Production taxes	\$5,870	\$5,800
Production taxes per Boe	\$5.79	\$6.03
Production taxes - % of petroleum and natural gas revenues, net	10%	8%

Production taxes are determined by the State of North Dakota, and depending on prevailing crude oil prices, can range between 8% and 11% of the Company's gross value of after-royalty volumes produced at the wellhead, after certain allowable exemptions. In the three months ended March 31, 2023, production taxes, on both a dollar and per Boe basis, were consistent with the Corresponding Period.

Transportation Expenses

<i>(\$ thousands, unless otherwise noted)</i>	Three months ended	
	March 31,	
	2023	2022
Transportation expenses	\$1,742	\$1,704
Transportation expenses per Boe	\$1.72	\$1.77

Transportation expenses associated with the Company's petroleum production are netted against the related revenue if they are incurred following the transfer of control to the entity which has purchased the commodity. If transportation costs are incurred prior to the sale of the production, such costs are reflected separately as an expense in the consolidated statement of operations and comprehensive income. Transportation expenses per Boe in the three months ended March 31, 2023 were relatively consistent compared to the Corresponding Period.

Operating Netback

<i>(\$ per Boe, unless otherwise noted)</i>	Three months ended	
	March 31,	
	2023	2022
Petroleum and natural gas revenues	\$72.76	\$88.26
Royalties	(12.96)	(16.48)
Operating expenses	(9.48)	(7.97)
Production taxes	(5.79)	(6.03)
Transportation expenses	(1.72)	(1.77)
Operating netback prior to hedging ⁽¹⁾	\$42.81	\$56.01
Realized loss on financial derivatives	-	(14.90)
Operating netback ⁽¹⁾	\$42.81	\$41.11

⁽¹⁾ Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to the section "Non-GAAP and Other Financial Measures" contained within this MD&A.

MANAGEMENT'S DISCUSSION AND ANALYSIS

General and Administrative Expenses ("G&A")

<i>(\$ thousands)</i>	Three months ended	
	March 31,	
	2023	2022
General and administrative expenses	\$2,636	\$2,475
Capitalized general and administrative expenses	(744)	(729)
Net general and administrative expenses	\$1,892	\$1,746
Net general and administrative expenses per Boe	\$1.87	\$1.82

Net G&A expenses were relatively consistent, on both a dollar and per Boe basis, for the three months ended March 31, 2023, compared to the Corresponding Period.

Transaction Related Costs

<i>(\$ thousands)</i>	Three months ended	
	March 31,	
	2023	2022
Transaction related costs	-	\$2,100
Transaction related costs per Boe	-	\$2.18

Transaction related costs in the three months ended March 31, 2022 related to severance costs and one-time administrative costs incurred to transition a new management team, which occurred in the first quarter of 2022.

Depletion and Depreciation Expenses

<i>(\$ thousands)</i>	Three months ended	
	March 31,	
	2023	2022
Depletion and depreciation expenses	\$12,971	\$11,452
Depletion and depreciation expenses per Boe	\$12.80	\$11.91

Depletion and depreciation expenses for the three months ended March 31, 2023 on a per Boe basis increased, compared to the Corresponding Period, primarily due to the weakening of the Canadian dollar, relative to the US dollar.

Finance Expenses

<i>(\$ thousands)</i>	Three months ended	
	March 31,	
	2023	2022
Senior credit facility interest	\$1,572	\$2,063
Decommissioning obligations accretion	54	37
Lease interest	15	20
Total finance expenses	\$1,641	\$2,120

In the three months ended March 31, 2023, finance expenses were lower compared to the Corresponding Period, reflecting the decrease in the average drawn amount on the senior credit facility.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Share-Based Compensation Expenses

(\$ thousands)	Three months ended	
	2023	March 31, 2022
Gross share-based compensation expenses	\$2,117	\$913
Capitalized share-based compensation expenses	(742)	(320)
Net share-based compensation expenses	\$1,375	\$593
Net share-based compensation expenses per Boe	\$1.36	\$0.62

The Company has granted restricted share bonus awards and performance share bonus awards (collectively, the "Share Bonus Awards") to certain directors, officers, and employees. Share Bonus Awards granted according to the plan generally vest over three years from the date of grant and expire before the end of the third year from the date of grant. Restricted share bonus awards vest pro rata, typically over a three-year period. Performance share bonus awards vest ratably over a three-year period, and their value is based on achievement of certain performance hurdles and are subject to a multiplier between 0 and 2.0 times based on the Company's performance against specified key performance indicators. The Share Bonus Awards may be settled by the Company, in its sole discretion, in cash and/or common shares of the Company. The estimated fair value of the Share Bonus Awards is determined based on the current market value of the Company's common shares at the dates of grant and considering anticipated forfeiture rates. For purposes of valuing performance share bonus awards, the Company assumes a performance share bonus award multiplier of 1.0 times. A charge to income is reflected as share-based compensation expense in the consolidated statement of operations and comprehensive income (loss) over the vesting period with a corresponding increase to contributed surplus in the consolidated statement of financial position.

In the three months ended March 31, 2023, net share-based compensation expenses were higher than the Corresponding Period largely due to Share Bonus Awards granted to new management and employees in the first half of 2022.

Foreign Currency Gain (Loss) and Translation Adjustment

(\$ thousands)	Three months ended	
	2023	March 31, 2022
Foreign currency translation rates - C\$/US\$		
Average period exchange rate	\$1.3525	\$1.2665
Ending period exchange rate	\$1.3533	\$1.2505

The Company's consolidated financial statements are reported in Canadian dollars, which is the Company's presentation currency. Transactions of the Company's US subsidiary are recorded in US dollars, its functional currency, as this is the primary economic environment in which the subsidiary operates. The assets, liabilities, and results of operations of the Company's US subsidiary are translated to Canadian dollars in the consolidated financial statements according to the Company's foreign currency translation policy, with any corresponding gain or loss reflected as a currency translation adjustment in other comprehensive income. In the three months ended March 31, 2023 the Company recorded a currency translation loss of \$0.3 million (Corresponding Period: currency translation loss of \$3.9 million).

Taxes

For the three months ended March 31, 2023, the Company recorded a deferred income tax expense of \$7.0 million (three months ended March 31, 2022 - \$3.1 million). The increase over the Corresponding Period is consistent with the increase in income before income taxes.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Liquidity and Capital Resources

Summary

The Company's capital resources consist primarily of cash flow provided by operating activities, cash and cash equivalents and availability under the senior credit facility. The Company is dependent on cash on hand, operating cash flows and equity and/or debt issuances to finance capital expenditures and property acquisitions. Borrowings are managed in relation to credit capacity and ability to generate future operating cash flows to service such debt.

The Company continuously monitors production, commodity prices and/or resulting cash flows. Should the outlook for future cash flow forecasts reflect a significantly negative trend, Lucero is capable of managing the Company's cash flows by not consenting to participate in additional drilling proposed by the operators of its non-operated properties, by reducing the Company's drilling and completion activity on its operated properties and by entering into commodity price hedge contracts. Lucero considers its current and future financial capacity and liquidity before proceeding with additional wells and other operations on the Company's operated lands.

The senior credit facility balance was US\$39.0 million at March 31, 2023 (US\$39.0 million at December 31, 2022), or US\$37.5 million (US\$35.9 million at December 31, 2022), net of available cash of US\$1.5 million (US\$3.1 million at December 31, 2022). In November 2022, the available borrowing base of the senior credit facility was renewed at US\$180.0 million with the next borrowing base redetermination scheduled to be completed by May 31, 2023. The Company has no other debt obligations.

Cash Flow Provided by Operating Activities

Cash flow provided by operating activities depends on several factors including commodity prices, royalty rates, production volumes, operating expenses, transportation expenses, and production taxes, as well as the impact of changes in non-cash working capital. During the three months ended March 31, 2023, cash flow provided by operating activities was \$34.9 million, compared to \$38.2 million in the Corresponding Period. The decrease is primarily due to changes in non-cash working capital and lower realized commodity prices, partially offset by lower realized hedge losses in the quarter.

Financial Derivatives and Hedging Activities

The Company's results of operations and cash flow provided by operating activities are impacted by changes in market prices for crude oil, natural gas and NGLs. The Company will, from time to time, enter into various derivative instruments to mitigate a portion of its exposure to adverse market changes in commodity prices. These derivative instruments allow the Company to predict with greater certainty the total revenue it will receive, provide stability to the Company's operating cash flows for capital spending planning purposes, and protect development and acquisition economics.

As at March 31, 2023, the Company had no derivative contracts outstanding.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Expenditures

(\$ thousands)	Three months ended	
	2023	March 31, 2022
Cash:		
Drilling, completions and optimizations	\$28,155	\$9,447
Equipment and facilities	3,164	1,332
Land retention costs	(24)	133
Administrative assets	20	150
Exploration and development expenditures ⁽¹⁾	\$31,315	\$11,062
Capitalized G&A	744	729
Total capital expenditures - cash items	\$32,059	\$11,791
Non-cash:		
Capitalized share-based compensation	742	320
Decommissioning obligations	619	(1,084)
Total capital expenditures ⁽¹⁾	\$33,420	\$11,027

⁽¹⁾ Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to the section "Non-GAAP and Other Financial Measures" contained within this MD&A.

Capital expenditures, consisting of capitalized development activity for the three months ended March 31, 2023, were funded from operating cash flows. During the three months ended March 31, 2023, in addition to various well optimizations, the Company completed three (2.97 net) operated wells.

Senior Credit Facility

The Company maintains a senior revolving credit facility which is referred to as the senior credit facility in the interim consolidated statement of financial position. The borrowing capacity was renewed at US\$180.0 million in November 2022 with the existing lending syndicate. The term out date is May 31, 2023, at which point, the facility can be further extended at the option of the lenders or converted to a one-year term loan expiring on the one year anniversary of the term out date. The amount of the facility is subject to a borrowing base test performed periodically based primarily on producing oil and natural gas reserves and using commodity prices estimated by the lenders as well as other factors. The next borrowing base redetermination is scheduled for the end of May 2023. If a decrease in the borrowing base is determined by the senior lenders in the future, it could potentially result in a reduction to the credit facility, which may require a repayment to the lenders within 60 days, if the drawn amount exceeds the borrowing base.

The credit facility is subject to certain non-financial covenants and the Company was in compliance with all covenants under the senior credit facility as at March 31, 2023. The credit facility has no financial covenants.

As at May 9, 2023, the net amount drawn under the Senior Credit Facility was US\$37.8 million representing US\$43.0 million of borrowings under the Senior Credit Facility and US\$5.2 million of cash on hand.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Share Capital

<i>(\$ thousands)</i>	Three months ended	
	2023	March 31, 2022
Weighted average outstanding common shares:		
Basic	662,410,687	609,679,498
Diluted	671,483,753	623,169,564
Outstanding Securities:		
Common shares	662,410,687	659,637,831
Restricted share bonus awards	7,254,238	6,207,083
Performance share bonus awards	25,273,416	15,742,591
Warrants	23,750,000	23,750,000

As at May 9, 2023, the Company had 662,410,687 common shares issued and outstanding, 23,750,000 warrants outstanding, 25,273,416 performance share bonus awards outstanding and 7,254,238 restricted share bonus awards outstanding.

Contractual Obligations, Commitments and Off-Balance Sheet Arrangements

Contractual Obligations and Other Commercial Commitments

The following is a summary of the Company's contractual obligations and commitments as at March 31, 2023:

<i>(\$ thousands)</i>	Total	2023	2024	2025	Thereafter
Accounts payable and accrued liabilities	\$45,808	\$45,808	-	-	-
Lease liability	945	333	310	302	-
Senior credit facility	52,820	-	52,820	-	-
Total	\$99,573	\$46,141	\$53,130	\$302	-

Off-Balance Sheet Arrangements

The Company is not involved with any contractual arrangement under which a non-consolidated entity may have an obligation under certain guarantee contracts, a retained or contingent interest in assets transferred to a non-consolidated entity or similar arrangement that serves as credit, liquidity, or market risk support by the Company to that entity for such assets. Lucero has no obligation under financial instruments or a variable interest in a non-consolidated entity that provides financing, liquidity, market risk or credit risk support to the Company.

Critical Accounting Estimates

The timely preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies, if any, as at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the period. Actual results may differ from these estimates.

Critical judgments that have the most significant effect on the amounts recognized in the consolidated financial statements include the following:

MANAGEMENT'S DISCUSSION AND ANALYSIS

Reserve Estimates

The Company uses estimated proved and probable oil and gas reserves to deplete developed and producing ("D&P") assets, to assess for indicators of impairment or impairment reversal on the Company's cash generating unit ("CGU") and if any such indicators exist, to perform an impairment test to estimate the recoverable amount of the CGU. The estimation of recoverable quantities of proved and probable oil and natural gas reserves is an inherently complex process and involves the exercise of professional judgment. Estimates are based on forecasted production, forecasted oil and gas commodity prices, forecasted operating costs, forecasted royalty costs and forecasted future development costs, all of which are subject to uncertainty. The Company's proved and probable oil and gas reserves are estimated by independent third party reserve evaluators and are determined in accordance with Canadian practices and specifically in accordance with National Instrument 51-101, Standards of Disclosures for Oil and Gas Activities, and the Canadian Oil and Gas Evaluation Handbook.

Reserve adjustments are made annually based on actual volumes produced, the results from capital expenditure programs, revisions to previous estimates, new discoveries and acquisitions and dispositions made during the year. Changes in reserve estimates can affect the impairment of D&P assets, including the recovery of previously recorded impairment, the estimation of decommissioning obligations, and the amounts reported for depletion of D&P assets.

Impairment

Each quarter, management reviews indicators of impairment (and indicators of impairment recovery as applicable) including internal and external sources of information including changes to reserve estimates, drilling results, performance of the Company's oil and gas producing assets and changes in commodity prices. Significant judgment is involved when assessing such indicators of impairment (and indicators of impairment reversal) and if indicators do exist, to prepare estimates of value in use and fair value less selling costs. Related estimates include assumptions as to appropriate discount factors and future commodity prices.

Decommissioning Obligations

The Company estimates the decommissioning obligations for oil and gas wells and their associated production facilities and pipelines. In most instances, removal of assets and remediation occurs many years into the future. Amounts recorded for the decommissioning obligations and related accretion expense require assumptions regarding removal date, future environmental legislation, the extent of reclamation activities required, the engineering methodology for estimating cost, inflation estimates, future removal technologies, and the estimate of the discount rates used to determine the present value of these cash flows.

Business Combinations

In a business combination, management makes estimates of the fair value of assets acquired and liabilities assumed which includes assessing the value of oil and gas properties based upon estimation of recoverable quantities of proved and probable reserves being acquired.

Share-based Compensation

The Company's estimate of share-based compensation expense associated with stock option grants and the value of warrants issued is dependent upon estimates of expected volatility of the Company's share price and anticipated forfeiture rates of the related securities. The Company's estimate of share-based compensation expense associated with share bonus awards is dependent on an estimate of anticipated forfeiture rates of such securities.

Deferred Income Taxes

The calculation of deferred income taxes is based on a number of assumptions, including estimating the future periods in which temporary differences, tax losses and other tax credits will reverse, the use of substantively enacted tax rates at the balance sheet date and the likelihood of deferred tax assets being realized.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Derivatives

The Company's estimate of the fair value of derivative financial instruments is dependent upon estimated forward commodity prices and the volatility in those prices.

Business Conditions and Risks

The Company's business is inherently risky and there is no assurance that hydrocarbon reserves will be discovered and economically produced. Financial risks associated with the petroleum industry include fluctuations in commodity prices, interest rates, currency exchange rates, the effects of inflation and the ability to access debt and/or equity financing at a reasonable cost, or at all. Operational risks include the performance of the Company's properties, safety and performance risks associated with drilling and well completion activities, competition for land and services, availability of transportation for the Company's production, environmental factors, reservoir performance uncertainties, a complex regulatory environment, other safety concerns, and reliance on the operators of a portion of the Company's properties. When acquiring land, the Company uses technical and industry knowledge to evaluate potential hydrocarbon plays in order to pay what it believes are economically sound prices that will benefit Lucero's shareholders. The Company's focus is on areas where the prospects are understood by management. There is risk that the Company may not realize the anticipated benefits of acquired properties or future development thereof.

The Company minimizes operational risks by hiring experienced management and engaging experienced service providers on our operated properties and by participating with well-established operators of our non-operated properties. On our non-operated properties, we have limited ability to exercise influence over, and control the risks associated with, operations of these properties. The failure of an operator of the Company's non-operated properties to adequately perform operations, an operator's breach of the applicable agreements or regulations or an operator's failure to act in ways that are in the Company's best interests could reduce production and revenues or could create a liability for the Company due to the operator's failure to properly maintain wells and facilities or to adhere to applicable safety and environmental standards. With respect to properties that the Company does not operate:

- The operator could refuse to initiate exploration or development projects;
- If the Company proceeded with any of those projects the operator has refused to initiate, Lucero may not receive any funding from the operator with respect to that project and thus bear all the capital risk;
- The operator may initiate exploration or development projects on a different schedule than the Company would prefer, possibly resulting in lease expirations;
- The operator may propose greater capital expenditures, or proceed on a different schedule than the Company anticipated, including expenditures to drill more wells or build more facilities than the Company has funds for, which may mean that the Company cannot participate in those projects or participate in a substantial amount of the revenues from those projects;
- The operator may not have adequate expertise or resources to perform operations efficiently.

Any of these events, and the resulting activities, could significantly and adversely affect anticipated exploration and development activities conducted on its properties which the Company does not operate, and the results of those activities.

Lucero's focus is on areas and geological formations in which the prospects are understood by management. Technological tools are extensively used to increase the probability of success and reduce risk.

Lucero relies on appropriate sources of funding to support the various stages of the Company's business strategy. There is no guarantee that external sources of financing will be available in the future, on favorable terms or at all. The various sources of funding include:

- Internally-generated funds flow from operations;
- New equity, if available on acceptable terms which may be utilized to fund acquisitions, to expand capital programs when appropriate and to repay any outstanding debt;
- Debt, in the form of traditional oil and gas borrowing base bank facilities, and/or subordinated debt which typically has a higher cost than bank debt; and
- Disposition of non-core assets.

(continued)

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Company is exposed to commodity price and market risk for our principal products of tight oil, shale gas, and natural gas liquids. Commodity prices are influenced by a wide variety of factors, most of which are beyond Lucero's control. In addition, the Company is exposed to fluctuations in the differentials between market price benchmarks and what is received in our geographic area of operation for our production. To manage this risk, the Company may enter into financial derivative contracts for hedging purposes. These derivative contracts may relate to crude oil and natural gas prices, as well as foreign exchange and interest rates. When considering if derivative contracts are warranted, the Company may also, from time to time, enter into fixed physical contracts to hedge the realized prices from its production. The Company monitors the cost and associated benefit of these instruments and contracts as well as any debt levels and utilization rates on debt lines. Although the Company's intent in entering such derivative contracts is to manage its exposure to fluctuations in commodity prices, such contracts may limit the Company's ability to fully realize the benefits of higher market prices.

Risk of cost inflation subjects the Company to potential erosion of product netbacks and returns from well drilling and completion activities. For example, increasing costs of crude oil and natural gas production equipment and services can inflate operating costs and/or drilling and well completion expenditures. In addition, increasing prices for undeveloped land can inflate costs of both asset and corporate acquisitions.

The supply of service and production equipment at competitive prices is critical to the ability to add reserves at a reasonable cost and produce them in an economic and timely fashion. In periods of increased activity, these services and supplies can become difficult to obtain. The Company and the operators of its non-operated properties attempt to mitigate this risk by developing long-term relationships with suppliers and contractors.

Demand for crude oil, NGLs and natural gas produced by the Company exists within Canada and the United States; however, crude oil prices are affected by worldwide supply and demand fundamentals while natural gas prices are currently primarily affected by factors restricted to the North American market. Demand for natural gas liquids is influenced mainly by the demand for petrochemicals in North American and offshore markets. Lucero mitigates the above-mentioned risks as follows:

- Lucero and the operators of certain of our properties attempt to explore for and produce oil that is high quality (light, sweet), mitigating the Company's exposure to adverse quality differentials;
- Natural gas production will generally be connected to established pipeline infrastructure or other local uses for the natural gas may be found; and
- Financial derivative instruments or fixed price physical contracts may be used where appropriate to manage commodity price volatility.

The Company is exposed to operational risks in terms of engaging service suppliers and drilling contractors, the normal oilfield risks of dangerous operations and the potential for discharge of hazardous substances into the environment, arranging for marketing of the Company's tight oil and shale gas production, as well as financing the costs of completing wells and recovering a share of those costs from our non-operating partners. The Company has and will continue to engage appropriate resources to ensure these risks are managed to the extent possible.

Lucero owns leases from individual mineral owners (Fee Leases), the State of North Dakota acting by and through the Board of University and School Lands (State Leases), individual native owners with approval from the Secretary of the Interior of the Bureau of Indian Affairs ("Allotted Leases" or BIA Leases), and the Bureau of Land Management (Federal Leases). Lucero adheres to the National Environmental Policy Act in its operations and is under the regulatory authority of the North Dakota Industrial Commission, the Bureau of Indian Affairs ("BIA"), the Bureau of Land Management and the Department of the Interior's Office of Natural Resources Revenue. The Allotted Leases are held in trust by the United States for the benefit of individual native owners and are subject to restrictions against alienation or encumbrance without approval of the Secretary of the Interior. All the Company's Allotted Leases are located within the boundaries of the Fort Berthold Indian Reservation ("FBIR") which makes the Company subject to unique regulations that are not applicable to lands outside the FBIR. The Company mitigates regulatory risk by maintaining good relationships with the BIA and local residents, and staying abreast of current regulations. Lucero's ability to execute projects and realize the benefits therefrom is subject to factors beyond our control, including changes to regulations promulgated by any of the above entities.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Environmental Regulation and Risk

General Risks

Oil and gas exploration and production can involve environmental risks such as litigation, physical and regulatory risks. Physical risks include the pollution of the environment, climate change and destruction of natural habitat, as well as safety risks such as personal injury. The Company works hard to identify the potential environmental impacts of its new projects in the planning stage and during operations. The Company conducts its operations with exacting standards in order to protect the environment, its employees and consultants, and the general public. The Company maintains current insurance coverage for comprehensive and general liability as well as limited pollution liability. The amount and terms of this insurance are reviewed on an ongoing basis and adjusted as necessary to reflect current corporate requirements, as well as industry standards and government regulations. If the Company becomes subject to environmental liabilities without such insurance, the payment of such liabilities could reduce or eliminate its available funds or could exceed the funds the Company has available and result in financial distress.

Climate Change Risks

Our exploration and production facilities and other operations and activities emit greenhouse gasses ("GHG") which may require us to comply with US federal and/or state GHG emissions legislation. Climate change policy is evolving at regional, national, and international levels, and political and economic events may significantly affect the scope and timing of climate change measures that are ultimately put in place to prevent climate change or mitigate our effects. The direct or indirect costs of compliance with GHG-related regulations may have a material adverse effect on our business, financial condition, results of operations and prospects. Some of our significant facilities may ultimately be subject to future regional, and/or US federal climate change regulations to manage GHG emissions. In addition, climate change has been linked to long-term shifts in climate patterns and extreme weather conditions both of which pose the risk of causing operational difficulties. The Company has undertaken several initiatives, including continuous flaring reduction initiatives, transporting crude oil by pipeline rather than by truck, and connecting natural gas to pipeline connections to reduce GHG emissions from its operations. Climate change and related regulation and public response to such items may negatively impact demand for oil, natural gas and NGLs in the future, and could reduce market prices for our commodities.

Additional Risk Information

Additional information regarding risks including, but not limited to, business risks the Company may be subject to, are available in the Company's Annual Information Form, a copy of which may be accessed through SEDAR website (www.sedar.com).

Additional Information

Additional information can be obtained by contacting the Company at Lucero Energy Corp., Suite 1800, 350 - 7th Avenue SW, Calgary, Alberta T2P 3N9 or by email at info@luceroenergy.com. Additional information is also available on www.sedar.com or www.luceroenergy.com.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Summary of Quarterly and Annual Results

<i>(in \$000's of dollars, except per share amounts)</i>	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021
Petroleum and natural gas revenues, net of royalties	60,596	62,865	70,698	76,661	69,000	59,098	55,530	36,561
Net income	18,469	18,995	29,812	25,824	5,888	25,065	14,954	3,578
Per share – basic	0.03	0.03	0.05	0.04	0.01	0.05	0.03	0.01
Per share – diluted	0.03	0.03	0.04	0.04	0.01	0.05	0.03	0.01
Funds flow ⁽²⁾	39,909	37,015	41,498	35,017	33,601	19,962	21,137	11,211
Per share – basic ⁽³⁾	0.06	0.06	0.06	0.05	0.06	0.04	0.04	0.02
Per share – diluted ⁽³⁾	0.06	0.06	0.06	0.05	0.05	0.04	0.04	0.02
Funds flow, excluding transaction related costs ⁽²⁾	39,909	37,015	41,498	35,017	35,701	19,962	21,137	11,221
Per share – basic ⁽³⁾	0.06	0.06	0.06	0.05	0.06	0.04	0.04	0.02
Per share – diluted ⁽³⁾	0.06	0.06	0.06	0.05	0.06	0.04	0.04	0.02
Cash provided by operating activities	34,918	41,903	47,791	44,634	38,242	17,449	23,884	15,005
Per share – basic ⁽⁴⁾	0.05	0.07	0.07	0.07	0.06	0.03	0.05	0.03
Per share – diluted ⁽⁴⁾	0.05	0.07	0.07	0.07	0.06	0.03	0.04	0.03
Total assets	627,411	612,527	623,220	571,535	569,159	558,035	547,209	520,611
Senior credit facility	52,820	52,862	78,575	100,175	127,715	180,393	178,765	184,668
Net debt ⁽²⁾	69,608	77,426	99,192	107,451	121,092	196,067	185,864	182,351

(footnotes on next page)

MANAGEMENT'S DISCUSSION AND ANALYSIS

<i>(in \$000's of dollars, except per share amounts)</i>	Year ended Dec 31, 2022	Year ended Dec 31, 2021 ⁽¹⁾	Year ended Dec 31, 2020 ⁽¹⁾
Petroleum and natural gas sales, net of royalties	279,224	186,641	117,251
Net income (loss)	80,519	(828)	(61,985)
Per share – basic	0.12	-	(0.33)
Per share – diluted	0.12	-	(0.33)
Funds flow ⁽²⁾	147,131	64,742	48,645
Per share – basic ⁽³⁾	0.23	0.15	0.26
Per share – diluted ⁽³⁾	0.22	0.15	0.25
Cash provided by operating activities	172,570	72,230	69,991
Per share – basic ⁽⁴⁾	0.27	0.17	0.37
Per share – diluted ⁽⁴⁾	0.26	0.16	0.36
Total assets	612,527	558,035	502,877
Senior credit facility	52,862	180,393	221,915
Net debt ⁽²⁾	77,426	196,067	326,906

⁽¹⁾ The diluted number of shares is equivalent to the basic number of shares due to stock options, performance and restricted share bonus awards, and/or warrants being antidilutive in periods where the Company has a "net loss". Therefore, the diluted per share amounts in these periods are equivalent to the basic per share amounts.

⁽²⁾ Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to the section "Non-GAAP and Other Financial Measures" contained within this MD&A.

⁽³⁾ Non-GAAP ratio that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Includes a non-GAAP financial measure component of funds flow. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for an explanation of composition.

⁽⁴⁾ Cash provided by operating activities per share basic and diluted are supplementary financial measures calculated as cash provided by operating activities, which is determined in accordance with IFRS and includes changes in non-cash working capital, divided by basic and diluted shares outstanding, respectively.

Revenues in the first quarter of 2023 decreased 3% over the fourth quarter of 2022 due primarily to a decrease in realized oil prices, partly offset by an increase in production volumes. Cash flow provided by operating activities decreased in the first quarter of 2023 versus the prior quarter primarily due to changes in non-cash working capital and lower realized commodity prices, partly offset by lower realized hedge losses in the quarter.

Revenues in the fourth quarter of 2022 decreased 12% over the third quarter of 2022 due primarily to a decrease in realized oil prices. Cash flow provided by operating activities decreased in the fourth quarter of 2022 versus the prior quarter primarily due to the decrease in realized oil prices, offset by decreased realized hedging losses.

Revenues in the third quarter of 2022 decreased 8% over the second quarter of 2022 due primarily to a decrease in realized oil prices. Cash flow provided by operating activities increased in the third quarter of 2022 versus the prior quarter primarily due to decreased realized hedging losses.

Revenues in the second quarter of 2022 increased 12% over the first quarter of 2022 due primarily to an increase in realized oil prices, combined with an increase in production volumes. Net income also improved in the second quarter of 2022 mainly as a result of pricing and production volume increases. Cash flow provided by operating activities increased in the second quarter of 2022 versus the prior quarter due to improved realized pricing and increased production, offset by increased realized hedging losses.

Revenues in the first quarter of 2022 increased 16% over the fourth quarter of 2021 due primarily to an increase in realized oil prices, somewhat offset by a decrease in production volumes. Cash flow provided by operating activities increased in the first quarter of 2022 versus the prior quarter due to improved realized pricing and decreased realized hedging losses, offset by decreased production.

Revenues in the fourth quarter of 2021 increased 6% over the third quarter of 2021 due primarily to an increase in realized oil prices, somewhat offset by a decrease in production volumes. Net income also improved in the fourth quarter of 2021 mainly as a result of pricing increases. Cash flow provided by operating activities decreased in the fourth quarter of 2021 versus the prior quarter due to decreased volumes and increased realized hedging losses, offset by improved realized pricing.

Revenues in the third quarter of 2021 increased 52% over the second quarter of 2021 due primarily to a 27% increase in production volumes and increased commodity pricing. Adjusted EBITDA and net income also improved in the third quarter of 2021 mainly as a result of production and pricing increases. Cash flow provided by operating activities increased in the third quarter 2021 of versus the prior quarter due to improved volumes and pricing.

Revenues in the second quarter of 2021 remained consistent with the prior period as improved pricing was partially offset by a minor production decrease. Cash flow from operating activities and adjusted EBITDA were negatively impacted by the realized loss on financial derivatives, increased operating costs, and increased production taxes.



Financial Statements

As at March 31, 2023

and for the three months ended

March 31, 2023 and 2022

FINANCIAL STATEMENTS

LUCERO ENERGY CORP.

Consolidated Statements of Financial Position

(unaudited)

(in \$000's of Canadian dollars)

	Note	As at March 31, 2023	As at December 31, 2022
Assets			
Cash and cash equivalents		\$2,089	\$4,158
Accounts receivable		25,800	28,420
Prepaid expenses and deposits		1,131	1,520
Total current assets		29,020	34,098
Restricted cash		217	217
Right of use assets	3	801	901
Property, plant and equipment	4	597,373	577,311
Total non-current assets		598,391	578,429
Total assets		\$627,411	\$612,527
Liabilities			
Accounts payable and accrued liabilities		\$45,808	\$58,662
Lease liability	3	431	440
Total current liabilities		46,239	59,102
Senior credit facility	5	52,820	52,862
Lease liability	3	514	613
Decommissioning obligations	6	6,654	5,993
Deferred tax liability		37,474	30,553
Total non-current liabilities		97,462	90,021
Total liabilities		\$143,701	\$149,123
Shareholders' Equity			
Common shares	7	\$418,566	\$418,566
Warrants	7	2,342	2,342
Contributed surplus		12,005	9,888
Retained earnings		23,489	5,020
Accumulated other comprehensive income		27,308	27,588
Total equity		483,710	463,404
Total liabilities and equity		\$627,411	\$612,527

Subsequent event (note 12)

See accompanying notes to the interim consolidated financial statements

FINANCIAL STATEMENTS

LUCERO ENERGY CORP.

Consolidated Statements of Operations and Comprehensive Income

(unaudited)

(in \$000's of Canadian dollars, except per share amounts)

	Note	Three months ended	
		2023	March 31, 2022
Revenues			
Petroleum and natural gas revenues	8	\$73,727	\$84,843
Royalties		(13,131)	(15,843)
Petroleum and natural gas revenues, net of royalties		60,596	69,000
Realized loss on financial derivatives		-	(14,322)
Unrealized loss on financial derivatives		-	(12,493)
Petroleum and natural gas revenues, net of royalties and derivatives		60,596	42,185
Expenses			
Operating		9,611	7,664
Production taxes		5,870	5,800
Transportation		1,742	1,704
General and administrative		1,892	1,746
Transaction related costs		-	2,100
Finance	10	1,641	2,120
Share-based compensation		1,375	593
Depletion and depreciation	3, 4	12,971	11,452
		35,102	33,179
Income before income taxes		25,494	9,006
Deferred income tax expense		7,025	3,118
Net income		\$18,469	\$5,888
Currency translation adjustment		(280)	(3,943)
Comprehensive income		\$18,189	\$1,945
Net income per share:			
Basic and diluted	9	\$0.03	\$0.01

See accompanying notes to the interim consolidated financial statements

FINANCIAL STATEMENTS

LUCERO ENERGY CORP.

Consolidated Statements of Changes in Shareholders' Equity

(unaudited)

(in \$000's of Canadian dollars)

	Common shares	Warrants	Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Shareholders' equity
Balance at December 31, 2021	\$366,730	-	\$6,596	(\$75,499)	(\$839)	\$296,988
Share-based compensation, gross	-	-	913	-	-	913
Issued pursuant to private placements	52,158	2,342	-	-	-	54,500
Share issue costs	(2,235)	-	-	-	-	(2,235)
Net income	-	-	-	5,888	-	5,888
Other comprehensive loss	-	-	-	-	(3,943)	(3,943)
Balance at March 31, 2022	\$416,653	\$2,342	\$7,509	(\$69,611)	(\$4,782)	\$352,111
Balance at December 31, 2022	\$418,566	\$2,342	\$9,888	\$5,020	\$27,588	\$463,404
Share-based compensation, gross	-	-	2,117	-	-	2,117
Net income	-	-	-	18,469	-	18,469
Other comprehensive loss	-	-	-	-	(280)	(280)
Balance at March 31, 2023	\$418,566	\$2,342	\$12,005	\$23,489	\$27,308	\$483,710

See accompanying notes to the interim consolidated financial statements

FINANCIAL STATEMENTS

LUCERO ENERGY CORP.

Consolidated Statements of Cash Flows

(unaudited)

(in \$000's of Canadian dollars)

	Note	Three months ended	
		2023	March 31, 2022
Operating activities			
Net income for the period		\$18,469	\$5,888
Depletion and depreciation	3, 4	12,971	11,452
Deferred income tax expense		7,025	3,118
Unrealized loss on financial derivatives		-	12,493
Share-based compensation		1,375	593
Finance expenses - non-cash	10	69	57
Finance expenses - cash	10	1,572	2,063
Change in non-cash working capital		(6,563)	2,578
Cash provided by operating activities		34,918	38,242
Investing activities			
Additions to property, plant and equipment	4	(32,059)	(11,791)
Change in non-cash working capital		(3,258)	(8,219)
Cash used in investing activities		(35,317)	(20,010)
Financing activities			
Repayment to senior credit facility, net		(184)	(51,540)
Debt issuance costs		-	97
Payment of interest		(1,524)	(2,097)
Payment of lease obligations	3	(122)	(146)
Proceeds from the Private Placements		-	54,500
Share issue costs		-	(2,235)
Cash used in financing activities		(1,830)	(1,421)
Change in cash and cash equivalents		(2,229)	16,811
Effect of foreign exchange rate changes		160	(87)
Cash and cash equivalents, beginning of period		4,158	340
Cash and cash equivalents, end of period		\$2,089	\$17,064

See accompanying notes to the interim consolidated financial statements

FINANCIAL STATEMENTS

LUCERO ENERGY CORP.

Notes to the Interim Consolidated Financial Statements

As at March 31, 2023 and for the three months ended March 31, 2023 and March 31, 2022

(unaudited)

(in \$000's of Canadian dollars, unless otherwise noted)

1. Description of Business

Lucero Energy Corp. ("Lucero" or the "Company") is an independent oil company focused on the acquisition, development, and production of oil-weighted assets in the Bakken and Three Forks formations in the Williston Basin area of North Dakota. The Company's common shares are listed on the TSX Venture Exchange under the "LOU" ticker symbol.

The Company has corporate offices located at Suite 1800, 350 - 7th Avenue SW, Calgary, Alberta T2P 3N9 and at 303 E. 17th Avenue, Suite 940, Denver, CO 80203.

2. Basis of Presentation

Basis of measurement and statement of compliance

These interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34"), and have been prepared following the same accounting policies and methods of computation as the annual consolidated financial statements for the year ended December 31, 2022. Income taxes on earnings or loss in the interim periods are accrued using the income tax rate that would be applicable to the expected total annual earnings or loss.

Certain information and disclosures normally included in the notes to the annual consolidated financial statements have been condensed or have been disclosed on an annual basis only. Accordingly, these interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2022, which have been prepared in accordance with IFRS as issued by the IASB.

These condensed interim consolidated financial statements were approved by the Company's Board of Directors on May 9, 2023.

Use of estimates, judgments and assumptions

The timely preparation of the interim consolidated financial statements in accordance with IFRS requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies, if any, as at the date of the interim consolidated financial statements and the reported amounts of revenue and expenses during the period. Actual results may differ from these estimates, judgments, and assumptions.

3. Right-of-Use Assets and Lease Liability

The Company's right of use assets and lease liability relate to leases for office space in Calgary and Denver.

Right of use assets

Balance at December 31, 2021	\$1,006
Additions	338
Depreciation	(498)
Effect of foreign currency rate changes	55
Balance at December 31, 2022	\$901
Depreciation	(100)
Balance at March 31, 2023	\$801

(continued)

FINANCIAL STATEMENTS

LUCERO ENERGY CORP.

Notes to the Interim Consolidated Financial Statements

As at March 31, 2023 and for the three months ended March 31, 2023 and March 31, 2022

(unaudited)

(in \$000's of Canadian dollars, unless otherwise noted)

Lease liability

Balance at December 31, 2021	\$1,125
Additions	338
Payments	(547)
Lease interest expense	73
Effect of foreign currency rate changes	64
Balance at December 31, 2022	\$1,053
Payments	(122)
Lease interest expense	15
Effect of foreign currency rate changes	(1)
Balance at March 31, 2023	\$945

4. Property, Plant and Equipment

	Developed and producing	Other	Total
Balance at December 31, 2021	\$516,364	\$27	\$516,391
Property acquisitions	8,858	-	8,858
Additions to property, plant and equipment	62,769	212	62,981
Capitalized share-based compensation	2,256	-	2,256
Change in decommissioning obligations	(2,543)	-	(2,543)
Depletion and depreciation	(48,208)	(51)	(48,259)
Effect of foreign currency rate changes	37,627	-	37,627
Balance at December 31, 2022	577,123	188	577,311
Additions to property, plant and equipment	32,039	20	32,059
Capitalized share-based compensation	742	-	742
Change in decommissioning obligations	619	-	619
Depletion and depreciation	(12,852)	(19)	(12,871)
Effect of foreign currency rate changes	(487)	-	(487)
Balance at March 31, 2023	\$597,184	\$189	\$597,373

Depreciation, depletion and future development costs

Depletion and depreciation expense was \$12.9 million (2022 - \$11.3 million) for the three months ended March 31, 2023, which reflected an estimated US\$239.8 million (2022 - US\$250.8 million) of future development costs associated with proved and probable oil and gas reserves.

Impairment

There were no indicators of impairment at March 31, 2023.

Capitalized Overhead

During the three months ended March 31, 2023, the Company capitalized \$0.7 million of general and administrative costs and \$0.7 million of share-based compensation costs directly attributable to acquisition and development activities (\$0.7 million and \$0.3 million, respectively, for the three months ended March 31, 2022).

FINANCIAL STATEMENTS

LUCERO ENERGY CORP.

Notes to the Interim Consolidated Financial Statements

As at March 31, 2023 and for the three months ended March 31, 2023 and March 31, 2022

(unaudited)

(in \$000's of Canadian dollars, unless otherwise noted)

5. Senior Credit Facility

The Company's reserves-based revolving credit facility of US\$180.0 million is comprised of a US\$165.0 million syndicated facility and a US\$15.0 million non-syndicated operating facility (together, the "Senior Credit Facility"). As at March 31, 2023, the Senior Credit Facility balance was US\$39.0 million, or US\$37.5 million net of available cash of US\$1.5 million. Advances under the Senior Credit Facility are available by way of direct advances, bankers' acceptances, and standby letters of credit. Direct advances bear interest at the Canadian prime rate, US base rate or SOFR rate, as elected by the Company, plus a margin ranging from 1.75% to 5.25%, which is dependent on the Company's Senior Debt to EBITDA ratio. The Senior Credit Facility is secured by a fixed and floating charge debenture on substantially all the Company's assets.

The Senior Credit Facility borrowing base is subject to redetermination on a periodic basis, no later than May 31 and November 30 annually, based primarily on producing oil and gas reserves, as estimated by the Company's independent third-party reserve evaluators, and using commodity prices established by the lender as well as other factors. The next borrowing base redetermination is scheduled for May 31, 2023 with a term out date on the same day, at which point, the facility can be extended at the option of the lenders or converted to a one-year term loan expiring and requiring repayment one year from the term out date. If a decrease in the borrowing base is determined by the senior lenders in the future, it could potentially result in a reduction to the credit facility, which may require a repayment to the lenders within 60 days, if the drawn amount exceeds the borrowing base. The Company was in compliance with terms of the Senior Credit Facility at March 31, 2023.

6. Decommissioning Obligations

	As at March 31, 2023	As at December 31, 2022
Balance, beginning of period	\$5,993	\$7,971
Obligations incurred	110	589
Obligations acquired	-	73
Change in estimated future cash flows	509	(3,205)
Accretion	54	174
Effect of foreign currency rate changes	(12)	391
Balance, end of period	\$6,654	\$5,993

Lucero's decommissioning obligation consists of remediation obligations resulting from the Company's ownership interests in petroleum and natural gas assets. The total obligation is estimated based on the Company's net working interest in wells and related facilities, estimated costs to return these sites to their original condition, costs to plug and abandon wells and the estimated timing of the costs to be incurred in future years.

The Company has estimated the net present value of its total decommissioning provision to be \$6.7 million at March 31, 2023 (\$6.0 million at December 31, 2022) based on a total undiscounted and uninflated liability of \$10.4 million (\$10.3 million at December 31, 2022). Management estimates that these payments are expected to be made over the next 50 years based in part on estimates prepared by independent third-party reserve evaluators. As at March 31, 2023, a risk-free interest rate of 3.7% (4.0% at December 31, 2022) and an inflation rate of 2.2% (2.3% at December 31, 2022) were used to calculate the present value of the decommissioning obligation.

FINANCIAL STATEMENTS

LUCERO ENERGY CORP.

Notes to the Interim Consolidated Financial Statements

As at March 31, 2023 and for the three months ended March 31, 2023 and March 31, 2022

(unaudited)

(in \$000's of Canadian dollars, unless otherwise noted)

7. Share Capital

Warrants

As part of private placements closed in February 2022, 23,750,000 warrants were issued, each entitling the holder to acquire one common share at a price of \$0.475, subject to the following conditions:

- one-third of the warrants may be exercised after the Company's trading price (the "Trading Price") exceeds \$0.67,
- one-third of the warrants may be exercised after the Company's Trading Price exceeds \$0.83, and
- one-third of the warrants may be exercised after the Company's Trading Price exceeds \$0.95.

The Trading Price is defined as the 20-day weighted average trading price.

At March 31, 2023, 15.8 million warrants had vested (15.8 million at December 31 2022), which represents the first two thirds of the total warrants issued. In the three months ended March 31, 2023, no warrants were exercised. All remaining warrants outstanding or exercisable will expire on February 1, 2027.

Common shares

The Company's authorized share capital consists of unlimited voting common shares, unlimited non-voting common shares, and unlimited Class A preferred shares, issuable in series, of which one series (being the special voting shares) have been authorized for issuance. As at March 31, 2023, the Company had 662,410,687 voting common shares (662,410,687 at December 31, 2022), no non-voting common shares, and no special voting preferred shares outstanding.

The following table reflects the Company's outstanding common shares as at March 31, 2023:

<i>(thousands, except number of common shares)</i>	Common shares	Share capital
Balance at December 31, 2021	523,387,831	\$366,730
Settlement of restricted and performance share bonus awards	2,772,856	1,913
Private placements	136,250,000	52,158
Share issue costs	-	(2,235)
Balance at December 31, 2022 and March 31, 2023	662,410,687	\$418,566

(continued)

FINANCIAL STATEMENTS

LUCERO ENERGY CORP.

Notes to the Interim Consolidated Financial Statements

As at March 31, 2023 and for the three months ended March 31, 2023 and March 31, 2022

(unaudited)

(in \$000's of Canadian dollars, unless otherwise noted)

Share bonus awards

The Company has granted restricted share bonus awards and performance share bonus awards (collectively, the “share bonus awards”) to certain directors, officers, and employees. Share bonus awards granted according to the plan vest over three years from the date of grant and expire before the end of the third year from the date of grant. Performance share bonus awards are valued on achievement of certain performance hurdles and are subject to a multiplier between 0 and 2.0 times based on relative performance. The share bonus awards may be settled by the Company, in its sole discretion, in cash and or common shares of the Company. The estimated fair value of the share bonus awards is determined based on the current market value of the Company's common shares at the dates of grant and considering anticipated forfeiture rates. For purposes of valuing performance share bonus awards, the Company assumes a multiplier of 1.0 times. A charge to income is reflected as share-based compensation expense in the consolidated statement of operations and comprehensive income over the vesting period with a corresponding increase to contributed surplus.

	Restricted share bonus awards	Performance share bonus awards	Total awards	Estimated fair value price (\$)
Balance at December 31, 2021	2,297,872	7,803,086	10,100,958	\$0.36
Granted	7,878,555	24,211,833	32,090,388	0.62
Settled	(2,355,073)	(2,196,411)	(4,551,484)	0.30
Forfeited and expired	(596,324)	(4,661,921)	(5,258,245)	0.19
Balance at December 31, 2022	7,225,030	25,156,587	32,381,617	0.66
Granted	29,208	116,829	146,037	0.54
Balance at March 31, 2023	7,254,238	25,273,416	32,527,654	\$0.66

8. Revenue

The following table details the Company's sales by product:

	Three months ended March 31,	
	2023	2022
Tight oil	\$65,117	\$75,637
Shale gas	6,458	4,882
Natural gas liquids	2,152	4,324
	\$73,727	\$84,843

The Company sells production pursuant to variable-priced contracts. The transaction price is based on the relevant commodity price, adjusted for quality, location, or other factors, whereby each component of the pricing formula can be either fixed or variable, depending on the contract terms. Commodity prices are based on market indices that are determined on a monthly or daily basis.

The Company has several different commodity sales as well as transportation and processing contracts related to production from its properties. To the extent control of the relevant commodity is transferred to the purchaser prior to transportation or processing fees are incurred, such fees are netted against the relevant revenue in the consolidated statement of operations and comprehensive income. To the extent control of the relevant commodity is transferred to a purchaser after transportation or processing fees are incurred, such fees are reflected as transportation expense and as operating expense, respectively in the consolidated statement of operations and comprehensive income.

FINANCIAL STATEMENTS

LUCERO ENERGY CORP.

Notes to the Interim Consolidated Financial Statements

As at March 31, 2023 and for the three months ended March 31, 2023 and March 31, 2022

(unaudited)

(in \$000's of Canadian dollars, unless otherwise noted)

9. Net Income per Common Share

Earnings per share amounts are calculated by dividing the net income for the period attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period.

<i>(thousands, except number of common shares and per share amounts)</i>	Three months ended	
	2023	March 31, 2022
Net income for the period	\$18,469	\$5,888
Basic weighted average number of common shares	662,410,687	609,679,498
Diluted weighted average number of common shares	671,483,753	623,169,564
Basic and diluted net income per common share	\$0.03	\$0.01

In computing diluted earnings for the three months ended March 31, 2023, 4,861,148 performance share bonus awards, 2,384,117 warrants and 1,827,801 restricted share bonus awards were added to the basic weighted average common shares outstanding.

In computing diluted earnings for the three months ended March 31, 2022, 5,826,849 warrants, 5,498,532 performance share bonus awards and 2,164,685 restricted share bonus awards were added to the basic weighted average common shares outstanding.

10. Finance Expense

	Three months ended	
	2023	March 31, 2022
Senior credit facility interest	\$1,572	\$2,063
Decommissioning obligation accretion	54	37
Lease interest	15	20
Total finance expense	\$1,641	\$2,120

11. Risk Management

Risk management activities

Commodity price risk

Lucero may use financial derivative instruments such as swaps, collars, and options to mitigate the impact of commodity price volatility and enhance the predictability of cash flows for a portion of its future oil, gas, and natural gas liquids production. The Company does not enter derivative instruments for speculative purposes. While these instruments mitigate the cash flow risk associated with future decreases in commodity prices, they may also curtail benefits from future increases in commodity prices.

(continued)

FINANCIAL STATEMENTS

LUCERO ENERGY CORP.

Notes to the Interim Consolidated Financial Statements

As at March 31, 2023 and for the three months ended March 31, 2023 and March 31, 2022

(unaudited)

(in \$000's of Canadian dollars, unless otherwise noted)

Credit and contract risk

Credit and contract risk represent the economic loss that Lucero would suffer if a counterparty in a transaction fails to meet its obligations in accordance with agreed terms.

The Company's cash is deposited with financial institutions and is subject to counterparty credit and contract risk. The Company mitigates this risk by only transacting with investment grade financial institutions with strong credit ratings.

Essentially all the Company's accounts receivable is from the production of tight oil and shale gas and joint operations receivables. Sales of tight oil and shale gas production from the Company's operated properties are made to large, credit-worthy industry purchasers. Three purchasers account for approximately 76% of the Company's revenue for the three months ended March 31, 2023 (three months ended March 31, 2022 - 54%). Joint operations receivables are from participants in the tight oil and shale gas sector and collection of outstanding balances is dependent on industry factors including commodity price fluctuations. The Company has not experienced any material credit losses on the collection of accounts receivable.

The use of financial derivative instruments also exposes the Company to credit and contract risk. The Company enters into derivative instruments only with counterparties that are also lenders in the Senior Credit Facility and have been deemed an acceptable credit risk. As the Company's counterparties are participants in the Senior Credit Facility, which is secured by substantially all assets of the Company, the Company is not required to post collateral.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet its short-term and long-term financial obligations when due, under both normal and unusual conditions, without incurring unacceptable losses. The financial liabilities in the consolidated statement of financial position consist of accounts payable and accrued liabilities, which are all considered due within one year, and the senior credit facility and lease liability. The Company anticipates it will continue to have adequate liquidity to fund its financial liabilities as they come due. The Company prudently manages liquidity by forecasting its cash flows from operating activities and its available capacity under its revolving credit facilities. The Company's accounts payable and accrued liabilities balance at March 31, 2023 was approximately \$45.8 million (December 31, 2022 - \$58.7 million). It is the Company's general practice to pay suppliers within 60 days.

The following are the contractual maturities of the Company's debt and anticipated timing of settlements of its other financial liabilities at March 31, 2023:

<i>(\$ thousands)</i>	Total	2023	2024	2025	Thereafter
Accounts payable and accrued liabilities	\$45,808	\$45,808	-	-	-
Lease obligations	945	333	310	302	-
Senior credit facility	52,820	-	52,820	-	-
Total	\$99,573	\$46,141	\$53,130	\$302	-

Interest rate risk

Lucero is exposed to interest rate risk on bank credit facilities to the extent of changes in market interest rates. Based on the Company's floating rate debt position at March 31, 2023, a 1 percent increase or decrease in the interest rate on floating rate debt would amount to an impact on income before tax of \$0.1 million for the three months ended March 31, 2023 (\$0.4 million for the three months ended March 31, 2022). This assumes that the change in interest rate is effective from the beginning of the year and the amount of floating rate debt is the average senior credit facility balance for the three months ended March 31, 2023.

(continued)

FINANCIAL STATEMENTS

LUCERO ENERGY CORP.

Notes to the Interim Consolidated Financial Statements

As at March 31, 2023 and for the three months ended March 31, 2023 and March 31, 2022

(unaudited)

(in \$000's of Canadian dollars, unless otherwise noted)

Capital management

Lucero's objective when managing capital is to maintain a flexible capital structure which will allow it to execute on the Company's capital expenditure program, which includes expenditures on oil and gas activities which may or may not be successful. Therefore, Lucero monitors the level of risk incurred in the Company's capital expenditures to balance the proportion of debt and equity in the Company's capital structure.

Lucero manages the Company's capital structure and makes adjustments by continually monitoring its business conditions, including: current economic conditions; the risk characteristics of the Company's petroleum and natural gas assets; the Company's investment opportunities; current and forecasted net debt levels; current and forecasted commodity prices; and other factors that influence realized commodity prices and cash flow from operations such as quality and basis differential, royalties, operating costs and transportation and processing costs. The Company considers its capital structure to include working capital, any debt, and shareholders' equity. The Company monitors capital based on current cash flow from operations compared to forecasted capital and operating requirements.

In order to maintain or adjust the capital structure, Lucero will consider: the Company's forecasted cash flow from operations while investing an acceptable capital expenditure program which may include acquisition opportunities; the current level of credit available from its lenders; the level of credit that may become available from its lenders as a result of petroleum and natural gas reserve growth; the availability of other sources of debt with different characteristics than bank debt; the sale of assets; limiting the size of the capital expenditure program and new equity issuances if available on favorable terms. Access to any bank credit facility is determined by the lenders and is generally based upon the lenders' borrowing base models which are based upon the Company's petroleum and natural gas reserves.

12. Subsequent event

Asset acquisition

On April 27, 2023, Lucero closed an acquisition of top-up working interests in the Company's core Williston Basin area for cash consideration of US\$4.7 million.